

Petrolia Energy Corp  
Form 10-Q/A  
September 26, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

**(Amendment No. 1)**

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **March 31, 2018**

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-52690**

**PETROLIA ENERGY CORPORATION**

(Exact name of registrant as specified in its charter)

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**Texas**

**86-1061005**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**710 N Post Oak, Suite 512**

**77024**

**Houston, Texas**

(Address of principal executive offices) (Zip Code)

**(832) 941-0011**

(Issuer's telephone number, including area code)

Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 228,008,644 shares of common stock as of June 21, 2018.

## EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (“Amendment”) to the Quarterly Report on Form 10-Q of Petrolia Energy Corporation (the “Company”) for the quarter ended March 31, 2018 (the “Form 10-Q”), originally filed with the Securities and Exchange Commission (the “SEC”) on June 28, 2018, is being filed for the sole purpose of amending Item 1. Financial Statements; Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations; Item 4. Controls and Procedures, and Item 6. Exhibits, to clarify that:

(a)

the Bow Energy Ltd (“Bow”) Acquisition (described and defined below) is a related party transaction, because of the related party relationship the Company failed to disclose in the Form 10-Q, as described in (c) below;

(b)

the President, Chief Executive Officer and 100% owner of Blue Sky International Holdings Inc. (“Blue Sky”) is Ilyas Chaudhary, the father of Zel C. Khan, the Company’s Chief Executive Officer; that Mr. Chaudhary owns and controls BSIH Ltd. (“BSIH”), which was the largest shareholder of the Company prior to the agreed cancellation of the shares held by BSIH in September 2018, pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd. dated August 31, 2018, which entity Mr. Chaudhary also owns and controls;

(c)

prior to the acquisition of Bow, as described in (b) above, BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary controlled Bow;

(d)

on April 12, 2018 a \$500,000 convertible promissory note was issued to Blue Sky and such note was subsequently cancelled by the Company;

(e)

BSIH and Blue Sky Resources Ltd. are both entirely owned by Mr. Chaudhary; and

(f)

Quinten Beasley, the Company's Director, and not Mr. Khan, beneficially owns the shares of the Company's common stock held by Jovian Petroleum Corporation.

Except as described above and set forth below, no changes have been made to the Form 10-Q. The Form 10-Q continues to speak as of the date of the Form 10-Q, except as described below, and the Company has not updated the disclosures contained herein to reflect any events that have occurred as of a date subsequent to the date of the Form 10-Q, except as described below. Accordingly, this Amendment should be read in conjunction with the Form 10-Q and the Company's filings made with the SEC subsequent to the filing of the Form 10-Q. The filing of this Amendment is not an admission that the Form 10-Q, when filed, included any untrue statement of a material fact necessary to make a statement not misleading.

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**PART I****Item 1. Financial Statements****PETROLIA ENERGY CORPORATION****INTERIM CONSOLIDATED BALANCE SHEETS**

	March 31, 2018 (unaudited)	December 31, 2017 (audited)
<b>ASSETS</b>		
Current assets		
Cash	\$9,216	\$82,593
Accounts receivable	82,294	51,026
Other current assets	14,390	8,993
Total current assets	105,900	142,612
Property & equipment		
Oil and gas, on the basis of full cost accounting		
Evaluated properties	14,312,580	14,312,580
Unproved properties not subject to amortization	9,705,590	—
Furniture, equipment & software	282,672	264,723
Less accumulated depreciation and depletion	(1,217,351 )	(1,192,229 )
Net property and equipment	23,083,491	13,385,074
Other Assets		
Deposits	337,997	—
Intangible assets	49,886	49,886
Total Assets	\$23,577,274	\$13,577,572

**LIABILITIES & STOCKHOLDERS EQUITY**

Current liabilities		
Accounts payable	\$1,420,283	\$413,435
Accrued liabilities	911,052	896,897
Notes payable	1,488,988	32,582
Notes payable – related parties	169,500	217,100
Total current liabilities	3,989,823	1,560,014

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Asset retirement obligations	479,507	473,868
Installment note payable – long term	22,509	24,204
Total Liabilities	4,491,839	2,058,086
Stockholders' Equity		
Subscriptions received in advance	\$22,500	\$—
Preferred stock, \$0.001 par value, 1,000,000 shares authorized; 199,100 and 197,100 shares issued & outstanding	199	197
Common stock, \$.001 par value; 400,000,000 shares authorized; 222,437,810 and 111,698,222 shares issued and outstanding	222,438	111,698
Additional paid in capital	59,531,372	22,730,974
Accumulated other comprehensive income	(46,647 )	—
Accumulated deficit	(40,644,427)	(11,323,383)
Total Stockholders' Equity	19,085,435	11,519,486
Total Liabilities and Stockholders' Equity	\$23,577,274	\$13,577,572

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.



**PETROLIA ENERGY CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>March 31, 2018</b>	<b>March 31, 2017</b>
Oil and gas sales		
Oil and gas sales	\$29,980	\$33,560
Total Revenue	29,980	33,560
Operating expenses		
Lease operating expense	73,562	119,992
Production tax	1,799	—
General and administrative expenses	1,897,123	273,668
Depreciation, depletion and amortization	19,157	18,273
Loss on related party debt settlement	203,349	—
Impairment of goodwill related to Bow Energy Ltd., a related party	27,129,963	—
Asset retirement obligation accretion	5,639	11,930
Total operating expenses	29,330,592	423,863
Loss from operations	(29,300,612 )	(390,303 )
Other expenses		
Foreign currency remeasurement gain	53,338	—
Interest expense	(29,764 )	(72,967 )
Net loss	\$(29,277,038 )	\$(463,270 )
Series A Preferred Dividends	(44,006 )	—
Net Loss Attributable to Common Stockholders	(29,321,044 )	(463,270 )
Foreign currency translation adjustments	(46,647 )	—
Comprehensive loss attributable to Common Stockholders	(29,367,691 )	(463,270 )
Loss per share		
(Basic and fully diluted)	\$(0.24 )	\$(0.01 )
Weighted average number of shares of common stock outstanding	120,214,408	79,034,505

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**PETROLIA ENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>March 31, 2018</b>	<b>March 31, 2017</b>
Cash Flows from Operating Activities		
Net loss	\$(29,277,038)	\$(463,270)
Adjustment to reconcile net loss to net cash provided by/(used in) operating activities:		
Depletion, depreciation and amortization	19,157	18,273
Asset retirement obligation accretion	5,639	11,930
Finance fee for extension of note payable	—	31,660
Impairment of goodwill related to Bow Energy Ltd. a related party	27,129,963	—
Loss on related party debt settlement	203,349	—
Warrant expense related to business combination	103,632	—
Stock-based compensation	1,574,185	44,780
Foreign currency remeasurement gain	(53,338 )	—
Changes in operating assets and liabilities		
Accounts receivable	(31,268 )	1,815
Prepaid expenses and other current assets	(634 )	25,686
Accounts payable and accrued liabilities	17,278	139,330
Net cash flows from operating activities	(309,075 )	(189,796)
Cash Flows from Investing Activities		
Net cash acquired from purchase of Bow Energy Ltd., a related party	3,784	—
Cash flows from investing activities	3,784	—
Cash Flows from Financing Activities		
Proceeds from affiliate advances	—	126,500
Subscription received in advance	22,500	—
Proceed from issuance of common stock	238,675	—
Proceed from issuance of preferred stock	20,000	—
Payments to related party	(49,295 )	—
Payments on long-term debt	—	(965 )
Cash flows from financing activities	231,880	125,535
Effect of exchange rate changes on cash	34	—
Net change in cash	(73,377 )	(64,261 )
Cash at beginning of period	82,593	68,648

Cash at end of period	\$9,216	\$4,387
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SUPPLEMENTAL DISCLOSURES (Note 11)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**PETROLIA ENERGY CORPORATION**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017**

**(Unaudited)**

**NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION:**

Petrolia Energy Corporation (“we”, “us”, “Petrolia” and the “Company”) is an oil and gas exploration, development, and production company. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”).

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s latest Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the interim periods presented have been reflected herein. The results of operations for such interim periods are not necessarily indicative of operations for a full year. Notes to the consolidated financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the year ended December 31, 2017, as reported in Form 10-K for the year ended December 31, 2017, have been omitted.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Askarii Resources, LLC and Bow Energy Ltd. Our subsidiaries operate in the oil and gas industry. All significant intercompany transactions are eliminated in the consolidation process. Since the single subsidiary is wholly-owned, all

non-intercompany balances are included in the consolidated financial statement balances.

Also, the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Askarii Resources, LLC and Bow Energy Ltd. Our subsidiaries operate in the oil and gas industry. All significant intercompany transactions are eliminated in the consolidation process. Since the single subsidiary is wholly-owned, all non-intercompany balances are included in the consolidated financial statement balances.

#### Use of Estimates

The preparation of these condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the interim condensed consolidated financial statements in the period they are determined.

#### Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (Update or ASU) No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). The Company adopted this standard on a modified retrospective basis on January 1, 2018. No financial statement impact occurred upon adoption.

*Revenue from Contracts with Customers*

We recognize revenue when it satisfies a performance obligation by transferring control over a product to a customer. Revenue is measured based on the consideration we expect to receive in exchange for those products.

*Performance Obligations and Significant Judgments*

We sell oil and natural gas products in the United States through a single reportable segment. We enter into contracts that generally include one type of distinct product in variable quantities and priced based on a specific index related to the type of product.

The oil and natural gas is typically sold in an unprocessed state to processors and other third parties for processing and sale to customers. We recognize revenue at a point in time when control of the oil or natural gas passes to the customer or processor, as applicable, discussed below. For oil sales, control is typically transferred to the customer upon receipt at the wellhead or a contractually agreed upon delivery point. Under our natural gas contracts with processors, control transfers upon delivery at the wellhead or the inlet of the processing entity's system. For our other natural gas contracts, control transfers upon delivery to the inlet or to a contractually agreed upon delivery point. In the cases where we sell to a processor, we have determined that we are the principal in the arrangement and the processors are our customers. We recognize the revenue in these contracts based on the net proceeds received from the processor.

Transfer of control drives the presentation of transportation and gathering costs within the accompanying unaudited consolidated statements of operations. Transportation and gathering costs incurred prior to control transfer are recorded within the transportation and gathering expense line item on the accompanying unaudited consolidated statements of operations, while transportation and gathering costs incurred subsequent to control transfer are recorded as a reduction to the related revenue.

A portion of our product sales are short-term in nature. For those contracts, we use the practical expedient in ASC 606-10-50-14 exempting us from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

For our product sales that have a contract term greater than one year, we have utilized the practical expedient in ASC 606-10-50-14(a) which states we are not required to disclose the transaction price allocated to remaining performance

obligations if the variable consideration is allocated entirely to an unsatisfied performance obligation. Under these sales contracts, each unit of product represents a separate performance obligation; therefore, future volumes are unsatisfied, and disclosure of the transaction price allocated to remaining performance obligations is not required. We have no unsatisfied performance obligations at the end of each reporting period.

We do not believe that significant judgments are required with respect to the determination of the transaction price, including any variable consideration identified. There is a low level of uncertainty due to the precision of measurement and use of index-based pricing with predictable differentials. Additionally, any variable consideration identified is not constrained.

#### Business combinations

In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU provides an updated model for determining if acquired assets and liabilities constitute a business. In a business combination, the acquired assets and liabilities are recognized at fair value and goodwill could be recognized. In an asset acquisition, the assets are allocated value based on relative fair value and no goodwill is recognized. The ASU narrows the definition of a business. We adopted this standard in the first quarter of 2018. ASU 2017-01 did not have a material impact on our financial statements.



Recent Accounting Pronouncements

The Company has evaluated all the recent accounting pronouncements through the filing date and believes that none of them will have a material effect on the Company.

**NOTE 3. AMENDMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

The Company has determined that it should amend its previously issued financial statements in its Form 10-Q for the quarter ended March 31, 2018 due to its failure to adequately disclose the following matters associated with related party transactions involving the Company and its officers. Thus, the Company has filed the amendment to its previously issued financial statements to adequately disclose and clarify that:

(a)

the Bow Energy Ltd (“Bow”) Acquisition (defined below) is a related party transaction, because of the related party relationship the Company failed to disclose as described in (c), below;

(b)

the President, Chief Executive Officer and 100% owner of Blue Sky International Holdings Inc. (“Blue Sky”) is Ilyas Chaudhary, the father of Zel C. Khan, the Company’s Chief Executive Officer; that Mr. Chaudhary owns and controls BSIH Ltd. (“BSIH”), which was the largest shareholder of the Company prior to the cancellation of the shares held by BSIH in September 2018, pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd. dated August 31, 2018 of which entity Mr. Chaudhary also owns and controls;

(c)

prior to the acquisition of Bow as described in (b), above, BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary controlled Bow;

(d)

on April 12, 2018 a \$500,000 convertible promissory note was issued to Blue Sky and such note was subsequently canceled by the Company;

(e)

BSIH and Blue Sky Resources Ltd. are both entirely owned by Mr. Chaudhary; and

(f)

Quinten Beasley, the Company's Director, and not Mr. Khan, beneficially owns the shares of the Company's common stock held by Jovian Petroleum Corporation.

#### **NOTE 4. GOING CONCERN**

The Company has suffered recurring losses from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company plans to generate profits by reworking its existing oil or gas wells and drilling additional wells, as needed. The Company will need to raise funds through either the sale of its securities, issuance of corporate bonds, joint venture agreements and/or bank financing to accomplish its goals. The Company does not have any commitments or arrangements from any person to provide the Company with any additional capital, at this time. If additional financing is not available when needed, the Company may need to cease operations. The Company may not be successful in raising the capital needed to drill and/or rework existing oil wells. Any additional wells that the Company may drill may be non-productive. Management believes that actions presently being taken to secure additional funding for the reworking of its existing infrastructure will provide the opportunity for the Company to continue as a going concern. Since the Company has an oil producing asset, its goal is to increase the production rate by optimizing its current infrastructure. The accompanying financial statements have been prepared assuming the Company will continue as a going concern; no adjustments to the financial statements have been made to account for this uncertainty.

#### **NOTE 5. ACQUISITION OF BOW ENERGY LTD, A RELATED PARTY**

On November 30, 2017, we signed an Arrangement Agreement (the "Arrangement") to acquire Bow Energy Ltd, a related party ("Bow" and the "Acquisition"). Bow is a Canadian company with corporate offices in Alberta, Calgary.

On February 27, 2018, the Acquisition closed and we acquired all of the issued and outstanding shares of capital stock of Bow (each a “Bow Share”). The Arrangement was approved by an overwhelming majority of more than 99% of the votes cast by Bow’s shareholders at a special meeting of shareholders of Bow held on February 21, 2018. Final approval of the Arrangement was granted by the Court of Queen’s Bench of Alberta (the “Court”) on February 23, 2018.

Under the terms of the Arrangement, Bow shareholders are deemed to have received 1.15 Petrolia common stock shares for each Bow Share. A total of 106,156,712 shares of the Company’s common stock were issued to the Bow shareholders as a result of the Arrangement, plus additional shares in connection with the rounding described below. The Arrangement provided that no fractional shares would be issued in connection with the Arrangement, and instead, each Bow shareholder otherwise entitled to a fractional interest would receive the nearest whole number of Company shares. For example, where such fractional interest is greater than or equal to 0.5, the number of shares to be issued would be rounded up to the nearest whole number and where such fractional interest is less than 0.5, the number of shares to be issued would be rounded down to the nearest whole number. In calculating such fractional interests, all shares issuable in the name of or beneficially held by each Bow shareholder or their nominee as a result of the Arrangement shall be aggregated.

The Arrangement provides that any certificate formerly representing Bow common stock not duly surrendered on or before the last business day prior to the third anniversary of the closing date will cease to represent a claim by, or interest of, any former shareholder of any kind of nature against Bow or the Company and on such date all consideration or other property to which such former holder was entitled shall be deemed to have been surrendered to the Company.

The Company also assumed all of the outstanding warrants to purchase shares of common stock of Bow (the “Bow Warrants”) and certain options to purchase shares of common stock of Bow (the “Bow Options”) in connection with the Arrangement (i.e., each warrant/option to purchase one (1) share of Bow represents the right to purchase one (1) share of the Company following the closing).

At the closing of the Acquisition, we issued the Bow shareholders the shares described above and assumed warrants to purchase 320,000 shares of common stock valued at \$103,632.

Ilyas Chaudhary, is the father of Zel C. Khan, the Company's Chief Executive Officer. Mr. Chaudhary owned and controlled BSIH Ltd. (“BSIH”) prior to the acquisition of Bow and through the ownership and control of BSIH, Mr. Chaudhary controlled Bow. Therefore, the BOW acquisition is considered to be a related party transaction. Additionally, BSIH was the largest shareholder of the Company prior to the cancellation of the shares pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd dated August 31, 2018.

A subsidiary of Bow, Bow Energy Pte. Ltd. (“BEPL”), BEPL owns 75% of the issued and outstanding shares of Renco Elang Energy Pte. Ltd. (“REE”) which owns a 75% working interest in a Production Sharing Contract referred to as “South Block A” (the “Assets” or “SBA”) located onshore, North Sumatra, Indonesia. REE is the operator of the Assets. Effectively, the Company has a 44.48% working interest in the Assets.

On May 24, 2017, Bow’s wholly-owned subsidiary, Bow Energy International Holdings Inc. (“BEIH”), acquired all of Bukit Energy Inc.’s shareholding interests (the “Subsidiary Shares”) in five Singapore holding companies (the “Holding Companies”) that own the interests in four Production Sharing Contracts (“PSCs”) and one non-conventional joint study agreement (“JSA”), all interests are located onshore in Sumatra, Indonesia. The Holding Companies being acquired were Bukit Energy Central Sumatra (Mahato) Pte. Ltd. (“Mahato”), Bukit Energy Palmerah Baru Pte. Ltd. (“Palmerah Baru”), Bukit Energy Resources Palmerah Deep Pte. Ltd. (“Palmerah Deep”), Bukit Energy Bohorok Pte. Ltd. (“Bohorok”), and Bukit Energy Resources North Sumatra Pte. Ltd. (“Bohorok Deep”), collectively referred to as the “Bukit assets.”

The Holding Companies own the following interests in the conventional and non-conventional PSCs and non-conventional JSA:

Bohorok PSC (conventional) – operated 50% participating interest, 465,266 net acres

Palmerah Baru PSC (conventional) – operated 54% participating interest, 98,977 net acres  
 Palmerah Deep PSC (non-conventional)- operated 69.36% participating interest, 170,398 net acres  
 Mahato PSC (conventional)- 20% participating interest, 167,115 net acres, non-operated  
 Bohorok Deep (non-conventional)- 20.25% participating interest in a JSA, non-operated with option to become operator

The fair value of the 106,156,712 common shares issued as part of the consideration paid for Bow (\$34,607,088) was determined on the volume weighted average share price of Bow's common stock for the 90 days before the transaction was complete.

The purchase price allocation can be summarized as follows:

Cash	\$3,784
Other current assets	4,763
Deposits	337,997
Furniture, equipment & software	12,059
Unproved properties and properties not subject to amortization	9,705,590
Goodwill	27,129,963
Accounts payable	(1,157,876 )
Note payable	(1,429,192 )

The fair values of identifiable assets acquired as reported in the table above were estimated based on information available at the time of preparation of these interim condensed consolidated financial statements. The fair value was assessed based on the volume weighted average share price of Bow's common stock for the 90 days before the transaction was complete. Actual amounts recognized by the Company once the acquisition accounting is finalized may differ materially from these estimates. Fair value of cash, other current assets, deposits, furniture, equipment & software, accounts payable, and note payable was valued at the carrying value of Bow as this was deemed to be the most accurate measure of fair value. Fair value assigned to properties, which contain prospective oil and gas resources instead of reserves, was derived using market approach.

Acquisition costs included a finder's fee grant of 100,000 shares of common stock (\$37,000) as a bonus for the Bow Energy acquisition at a fair value of \$0.37 per share. In addition, the Company incurred \$103,632 in transaction costs associated with the issuance of warrants to purchase 320,000 shares of common stock in connection with the transaction.

The amount of Bow's loss included in Petrolia's consolidated income statement for the three months ended March 31, 2018, and the loss of the combined entity had the acquisition date been January 1, 2018, and January 1, 2017, are as

follows.

	Revenue	Earnings (Loss)
February 28, 2018 to March 31, 2018	\$9,993	\$(10,568,097)
Supplemental pro forma from January 1, 2018 to March 31, 2018	\$29,980	\$(29,740,308)
Supplemental pro forma from January 1, 2017 to March 31, 2017	\$2,388,184	\$(290,976 )

### **Impairment loss**

On March 31, 2018, the Company recorded an impairment to goodwill of \$27,129,963 relating to the impairment of the goodwill of Bow which was acquired by the Company pursuant to the Acquisition. The impairment was assessed based on future cash flow as of March 31, 2018.

**NOTE 6. SHORT-TERM NOTE PAYABLE**

	Nominal interest rate	Date of maturity	March 31, 2018		December 31, 2017	
			Face value	Carrying amount	Face value	Carrying amount
Current portion of truck loan (i)	5.49 %	January 6, 2022	\$32,582	\$32,582	\$32,582	\$32,582
Promissory note (ii)	12 %	June 30, 2018	37,613	42,127	—	—
Promissory note (iii)	12 %	June 30, 2018	36,451	39,747	—	—
Bukit Energy Inc. (iv)	8.5 %	Dec 15, 2017	500,000	538,677	—	—
Credit note (v)	9 %	May 11, 2021	800,000	835,855	—	—
			\$1,406,646	\$1,488,988	\$32,582	\$32,582

The promissory notes are repayable in full on maturity. The difference between the face value and carrying amount is attributed to accrued interest.

(i) On January 6, 2017, the Company purchased a truck and entered into an installment note with Don Ringer Toyota in the amount of \$35,677 for a term of five years at 5.49% annual percentage rate (APR).

(ii) The note matures on February 28, 2018 and carries interest at 12% per annum. The note was extended to June 30, 2018.

(iii) The note matures on February 28, 2018 and carries interest at 12% per annum. The note was extended to June 30, 2018.

(iv) In conjunction with the closing of the purchase of the Bukit assets, Bow issued a note payable to Bukit Energy Inc. of \$500,000 with interest at the rate of 8.5% per annum, calculated monthly, not in advance, on the principal amount. The note matured on August 31, 2017. The note was extended to December 15, 2017. The note is in default and remained in default at the time of issuance of these financial statements.

Bow has a loan in default of \$800,000. The credit note is secured by a general security agreement over the assets of Bow. Interest accrues monthly and is recorded at 9% on the full amount of the original issued notes of USD \$1,100,000. The note is in default and remained in default at the time of issuance of these financial statements.

(v) The debt holder also was issued warrants to purchase 320,000 shares of common stock exercisable at \$0.08 per share, expiring February 27, 2021. The warrants were valued at \$103,633 using the Black Scholes options pricing model with volatility of 283%, discount rate of 2.42% and call option value of \$0.32. The note was amended on May 9, 2018. Terms of which, are disclosed in Note 12.

## NOTE 7. EQUITY

### Preferred Stock

The holders of Series A Preferred Stock are entitled to receive cumulative dividends at a rate of 9% per annum. The Preferred Stock will automatically convert into common stock upon the earlier to occur of (a) the majority consent of the holders of such Preferred Stock; (b) a registered public offering of the Company's common stock, provided that the gross proceeds to the Company are at least \$10 million and the price is at least \$0.30; (c) the five year anniversary of the filing of the designation of the Preferred Stock with the Secretary of State of Texas (May 3, 2022); or (d) the date that the Company's common stock price equals or exceeds \$0.28 per share for 30 consecutive trading days. At conversion, the value of each dollar of preferred stock (based on a \$10 per share price) will convert into 7.1429 common shares (which results in a \$0.14 per common share conversion rate).

On February 5, 2018, one accredited investor subscribed and purchased 2,000 Series A preferred shares by remitting payment of \$20,000. As of March 31, 2018, there were 199,100 preferred shares outstanding.



In accordance with the terms of the preferred shares, a dividend was declared of \$44,006.

### Common Stock

During the three months ended March 31, 2018, the Company issued an aggregate of 110,739,588 shares of common stock. As of March 31, 2018, there were 222,437,810 shares of common stock outstanding.

On January 24, 2018, 350,000 shares, valued at \$59,500, were issued in accordance with Mr. James Burns' common stock related salary compensation.

On January 24, 2018, Mr. James Burns was issued 616,210 shares of restricted common stock in consideration for 2017 deferred salary of \$61,621. A debt settlement loss of \$203,349 was recorded.

On February 1, 2018, a law firm was granted 100,000 shares (valued at \$37,000) of common stock as a bonus for the Bow Energy acquisition at a fair value of \$0.37 per share.

On February 1, 2018, a geologist consultant in Oklahoma, was issued 150,000 shares of common stock (valued at \$18,000) at a deemed fair value of \$0.12 per share (valued based on the Company's stock trading price in 2017 when the obligation occurred), in exchange for his professional consulting services.

On February 1, 2018, director, Joel Oppenheim subscribed for half of one unit (discussed below) resulting in the issuance of 208,333 shares of common stock and one warrant for gross proceeds of \$25,000 at a price of \$0.12 per unit. 83,333 shares of common stock were not issued until subsequent to quarter end and an amount of \$10,000 is in subscriptions received in advance.

On February 1, 2018, a Director exercised warrants to purchase 1,110,000 shares of common stock by settling \$102,590 of Accounts Payable to a company controlled by the director at an average share price of \$0.092 per share. No gain or loss was recorded on settlement.

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From January 1, 2018 to March 31, 2018, the Company continued with the private offering of its securities under Regulation D of the Securities Act to accredited investors. Each unit which has a price of \$50,000, is comprised of 416,667 shares of common stock and one warrant to purchase an additional 416,667 shares of common stock at a price of \$0.20 per share at any time prior to October 1, 2020. From January 1, 2018 to March 31, 2018, two and a half (2.5) units had been subscribed for and 1,041,667 shares of common stock and warrants to acquire 1,041,667 shares of common stock had been purchased by various accredited investors for \$125,000.

On February 27, 2018, the Company closed the Acquisition and acquired all of the issued and outstanding shares of capital stock of Bow Energy Ltd, a related party, in consideration for 106,156,712 shares (valued at \$34,607,088, less \$27,129,963 relating to the impairment of the goodwill of Bow) of the Company's common stock as disclosed in Note 5. The shares were valued on the volume weighted average share price of Bow's common stock for the 90 days before the transaction was complete.

On February 28, 2018, one (1) warrant holder exercised a total of 360,000 warrants by remitting payment of \$36,875 at an average share price of \$0.102 per share.

On February 28, 2018, Director Joel Oppenheim exercised 630,000 warrants by remitting payment of \$61,800 at an average share price of \$0.098 per share.

## Warrants

Summary information regarding common stock warrants issued and outstanding as of March 31, 2018, is as follows:

	Warrants	<b>Weighted Average Exercise Price</b>	Weighted average remaining contractual life (years)
Outstanding at year ended December 31, 2017	35,087,198	\$ 0.24	2.15
Granted	4,075,833	0.13	3.00
Exercised	(2,100,000 )	0.10	—
Expired	—	—	—
Outstanding at quarter ended March 31, 2018	37,063,031	\$ 0.23	2.02

The intrinsic value of warrants as of March 31, 2018 is \$151,581 (December 31, 2017: \$1,106,583).

The table below summarizes the warrants granted during the three month period ended March 31, 2018:

	Number of Warrants	Exercise Price
Board of Director Service	1,750,000	\$ 0.10
Pursuant to acquisition of Bow Energy Ltd.	320,000	\$ 0.18
Private placement – March 2018	1,041,667	\$ 0.20
Private placement (Joel Oppenheim)	208,333	\$ 0.20
Pursuant to employment termination agreement	250,000	\$ 0.20
Deferred salary – CEO, former CFO	255,833	\$ 0.14
Pursuant to settlement of loan from director (Joel Oppenheim)	250,000	\$ 0.14
	4,075,833	

## Stock options

Upon closing of the Acquisition, the Company granted stock options to purchase 3,500,000 shares of common stock to former Bow employees and directors exercisable at \$0.12 per share and expiring on February 27, 2021. The stock options were valued at \$1,131,639 using the Black Scholes options pricing model with volatility of 283%, discount rate of 2.42% and a call option value of \$0.32.

Subscriptions received in advance

On February 1, 2018, director, Joel Oppenheim subscribed for half of one unit resulting in the issuance of 208,333 shares of common stock and warrants to purchase 208,333 shares of common stock, for gross proceeds of \$25,000 at a price of \$50,000 per unit. 83,333 shares of common stock were not issued until subsequent to quarter end and an amount of \$10,000 is included in subscriptions received in advance on the balance sheet.

On February 23, 2018, the Company received \$12,500 at a subscription price of \$0.12 in advance of shares being issued. The private placement closed on April 23, 2018 and 104,167 shares were issued.

**NOTE 8. COMMITMENTS AND CONTINGENCIES**

The Company, as a lessee of oil and gas properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the Company for the cost of pollution clean-up resulting from operations and subject the Company to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. The Company is not aware of any environmental claims existing as of March 31, 2018 which have not been provided for, or covered by insurance or which may have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change, or past noncompliance with environmental laws will not be discovered on the Company's properties.

*Office Lease* – The Company has a one year office lease in Houston at a cost of \$2,012 per month. The lease expires January 31, 2019 with two, one year renewal options.

#### **NOTE 9. RELATED PARTY TRANSACTIONS**

On January 15, 2018, Paul Deputy, the former CFO, terminated his employment with the Company. The Company has agreed to pay severance of \$192,521 amortized over a 30 month period beginning April 15, 2018 at a 5% annual percentage rate, \$5,000 per month for January, February and March of 2018 and issue warrants to purchase 250,000 shares of common stock exercisable at \$0.20 per share expiring in 36 months. The fair value of warrants granted was \$109,021.

On January 12, 2018, the Company entered into an employment agreement with Tariq Chaudhary, the Company's CFO, for a period of one year. The CFO will be paid a salary of \$7,500 a month during the first 90 days of the probationary period. Upon successful completion of the probationary period, the salary will be \$120,000 per year. Also, the CFO will be given a signing bonus of 500,000 shares of common stock, and was granted warrants to purchase 500,000 shares of common stock exercisable at \$0.12 per share equally vesting over 36 months upon successful completion of the probationary period.

On February 1, 2018, a Director exercised warrants to purchase 1,110,000 shares of common stock by settling \$102,590 of Accounts Payable to a company controlled by director, Quinton Beasley, at an average share price of \$0.092 per share. No gain or loss was recorded at settlement.

On February 1, 2018, director, Joel Oppenheim subscribed for half of one unit resulting in the issuance of 208,333 shares of common stock and warrants to purchase 208,333 shares of common stock for gross proceeds of \$25,000 at a price of \$50,000 per unit. 83,333 shares of common stock were not issued until subsequent to quarter end and an amount of \$10,000 is included in subscriptions received in advance on the balance sheet.

On February 9, 2018, the Company entered into a Revolving Line of Credit Agreement ("LOC") for \$200,000 (subsequently increased to \$500,000 on April 12, 2018) with Jovian Petroleum Corporation, a company controlled by a Director of the Company. The initial agreement is for a period of 6 months and can be extended for up to 5 additional terms of 6 months each. All amounts advanced pursuant to the LOC will bear interest from the date of advance until paid in full at 3.5% simple interest per annum. Interest will be calculated on a basis of a 360-day year and charged for the actual number of days elapsed. The Company repaid \$47,600 on the LOC.

On February 26, 2018, Mr. Oppenheim was issued 630,000 shares of common stock. These shares were the result of exercising warrants to purchase 630,000 shares of common stock, at an average exercise price of \$0.098 per share, which included the remittance of \$61,800 as the aggregate exercise price.

On February 27, 2018, the transactions contemplated by the November 30, 2017, Arrangement (the “Arrangement”) entered into to acquire Bow Energy Ltd (“Bow” and the “Acquisition”), a Canadian company with corporate offices in Alberta, Calgary, closed and the Company acquired Bow Energy Ltd., a related party and all of the issued and outstanding shares of capital stock of Bow (each a “Bow Share”). Under the terms of the Arrangement, Bow shareholders are deemed to have received 1.15 common stock shares for each Bow Share. A total of 106,156,712 shares of the Company’s common stock were issued to the Bow shareholders as a result of the Arrangement, plus additional shares in connection with rounding. Prior to the acquisition of Bow, BSIH Ltd. (“BSIH”) controlled Bow. The President, Chief Executive Officer and 100% owner of BSIH is Ilyas Chaudhary, the father of Zel C. Khan, the Company’s Chief Executive Officer. Because Mr. Chaudhary owns and controls BSIH, the acquisition of Bow was a related party transaction.

On April 18, 2018, a Separation and Release Agreement between the former President of the Company, James Burns and the Company became effective whereby Mr. Burns ceased to be an employee of the Company. Pursuant to the terms of the agreement, the Company will pay Mr. Burns \$33,000, grant him warrants to purchase 3,000,000 shares of common stock at an exercise price of \$0.10 per share and also issue 2,000,000 shares of restricted common stock of the Company, which it satisfied on May 14, 2018. The warrants were granted at fair value using a Black Scholes model for \$266,971 and the restricted shares were valued at the closing price of Petrolia’s stock, for \$180,000.

On April 20, 2018, the Company entered into an agreement to offer the position of Chairman of the Board to James Burns. Mr. Burns accepted and became Chairman of the Board effective May 1, 2018. Pursuant to the terms of the offer, Mr. Burns will be paid an annual salary of \$65,000 and up to \$25,000 in health benefits for Mr. Burns and his family. The Company will issue 500,000 shares of restricted common stock, which it satisfied on May 14, 2018. An additional 500,000 shares of restricted common stock will be issued upon a successful listing of the Company on the NASDAQ or NYSE exchanges. Mr. Burns will also be granted fully vested warrants to purchase 2,000,000 shares of common stock exercisable at \$0.10 per share expiring in 36 months. The warrants were granted at fair value using a Black Scholes model for \$177,982 and the restricted shares were valued at the closing price of Petrolia on the date of the agreement for \$45,000.

On May 22, 2018, 500,000 shares of common stock were issued to (CFO) Tariq Chaudhary as per his employment offer letter.

Also, on April 12, 2018, the Board of Directors approved (a) the entry by the Company into a \$500,000 Convertible Promissory Note with Blue Sky International Holdings Inc., a related party. The note, effective April 1, 2018, is due on April 1, 2019, accrues interest at the rate of 11% per annum until paid in full, and is convertible into shares of common stock of the Company at the rate of \$0.12 per share. This note was never utilized and subsequently cancelled on April 27, 2018; and (b) the entry into an Amended Revolving Line of Credit Agreement with Jovian Petroleum Corporation, a related party, which establishes a revolving line of credit in the amount of \$500,000 for a period of six months (through August 9, 2018) with amounts borrowed thereunder due at the expiration of the line of credit and accruing interest at the rate of 3.5% per annum unless there is a default thereunder at which time amounts outstanding accrue interest at the rate of 7.5% per annum until paid in full, with such interest payable every 90 days. Both the BSIH Promissory Note and the Jovian Line of Credit are related party transactions. Blue Sky International Holdings Inc. is owned by Mr. Ilyas Chaudhary, father of Zel C. Khan, former Director and Officer of Jovian and current CEO and President of Petrolia.

Effective on June 29, 2018, the Company acquired a 25% working interest in approximately 41,526 acres located in the Luseland, Hearts Hill, and Cuthbert fields, located in Southwest Saskatchewan and Eastern Alberta, Canada (collectively, the “Canadian Properties” and the “Working Interest”). The Canadian Properties currently encompass 64 sections, with 240 oil and 12 natural gas wells currently producing on the properties. Additionally, there are several idle wells with potential for reactivation and 34 sections of undeveloped land (approximately 21,760 acres).

The Canadian Properties and the Working Interest were acquired from Blue Sky Resources Ltd. (“Blue Sky”), whose President is Ilyas Chaudhary, the father of Zel C. Khan, the Company’s Chief Executive Officer. Mr. Chaudhary owns and controls BSIH Ltd. (“BSIH”). BSIH was the largest shareholder of the Company prior to the cancellation of the shares pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd dated August 31, 2018. Blue Sky had previously acquired an 80% working interest in the Canadian Properties from Georox Resources Inc., who had acquired the Canadian Properties from Cona Resources Ltd. and Cona Resources Partnership prior to the acquisition by the Company.

The effective date of the acquisition was June 1, 2018. The acquisition of the Canadian Properties was evidenced and documented by a Memorandum of Understanding between the Company and Blue Sky dated June 29, 2018 and a General Conveyance between the parties dated as of the same date, pursuant to which the Company agreed to acquire the Working Interest in consideration for \$1,428,581 in Canadian dollars (“CAD”) (approximately \$1,089,150 in U.S. dollars) of which CAD \$1,022,400 (approximately \$779,478 in U.S. dollars) was paid in cash (the “Cash Payment”) and CAD \$406,181 (approximately \$314,912 in U.S. dollars) was evidenced by a promissory note (the “Acquisition Note”).

The Cash Payment was made with funds borrowed by the Company pursuant to the terms of that certain \$1,530,000 May 9, 2018, Amended and Restated Loan Agreement entered into with Bow and a third party (the “Loan Agreement” and the “Lender”). The amount owed under the Loan Agreement accrues interest at the rate of 12% per annum (19% upon the occurrence of an event of default) and is due and payable on May 11, 2021. The Working Interest will be held in the name of the Company’s newly formed wholly-owned Alberta, Canada, subsidiary, Petrolia Canada Corporation. The Acquisition Note, which was dated June 8, 2018, bears interest at the rate of 9% per annum, beginning on August 1, 2018 and is due and payable on November 30, 2018, provided that we have the right to extend

the maturity date for a period six months with 10 days' notice to Blue Sky, in the event we pay 25% of the principal amount of the Acquisition Note at the time of extension.

The acquisition has not formally closed as the assets can only be transferred after the payment/settlement of the Acquisition Note.

On August 17, 2018, the Company sold an aggregate of \$90,000 in Convertible Promissory Notes (the "Director Convertible Notes"), to the Company's directors, Ivar Siem (\$20,000) through an entity that he is affiliated with; Leo Womack (\$60,000); and Joel Oppenheim (\$10,000). The Director Convertible Notes accrue interest at the rate of 12% per annum until paid in full and are due and payable on October 17, 2018. The amount owed may be prepaid at any time without penalty. The outstanding principal and interest owed under the Director Convertible Notes are convertible into common stock of the Company, from time to time, at the option of the holders of the notes, at a conversion price of \$0.10 per share. As additional consideration for entering into the notes, the Company agreed to grant one-year warrants to purchase one share of the Company's common stock at an exercise price of \$0.10 per share for each dollar loaned pursuant to the Director Convertible Notes (the "Bridge Note Warrants"). As such, the Company granted (a) 20,000 Bridge Note Warrants to an entity affiliated with Ivar Siem; (b) 60,000 Bridge Note Warrants to Leo Womack; and (c) 10,000 Bridge Note Warrants to Joel Oppenheim. The Director Convertible Notes contain standard and customary events of default. It is contemplated that up to an additional \$160,000 in Director Convertible Notes will be sold to affiliates of the Company in the next several months.

Effective on August 31, 2018, the Company entered into and closed the transactions contemplated by a Share Exchange Agreement with Blue Sky Resources Ltd. ("Blue Sky" and the "Exchange Agreement"). The President, Chief Executive Officer and 100% owner of Blue Sky is Ilyas Chaudhary, the father of Zel C. Khan, the Company's Chief Executive Officer. Chaudhary indirectly owns and controls BSIH Ltd. ("BSIH"), which is a significant shareholder of the Company. Additionally, prior to the acquisition of Bow Energy Ltd. ("Bow") (which we acquired pursuant to an Arrangement Agreement dated November 30, 2017, which acquisition closed on February 27, 2018), BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary, controlled Bow.

Pursuant to the Exchange Agreement, we exchanged 100% of the ownership of Bow, in consideration for:

(a)

70,807,417 shares of the Company's common stock owned and controlled by Mr. Chaudhary and BSIH (the "Blue Sky Shares");

(b)

\$100,000 in cash (less certain advances paid by Blue Sky or Bow to the Company since April 1, 2018);



(c)

the assumption of certain payables owed by Bow totaling \$1,696,332 (which includes \$730,000 owed under the terms of a Loan Agreement, as amended, originally entered into by Bow, but not the subsequent \$800,000 borrowed by Bow pursuant to the amendment to the Loan Agreement dated May 9, 2018 (which obligation is documented by a Debt Repayment Agreement));

(d)

20% of Bow Energy International Holdings, Inc, which is wholly-owned by Bow (“Bow EIH”)(which entity’s subsidiaries own certain Production Sharing Contracts (the “PSC”) and certain other participating assets), pursuant to an Assignment Agreement;

(e)

certain carry rights described in greater detail in the Exchange Agreement, providing for Blue Sky to carry the Company for up to the next \$10 million of aggregate costs in BOW EIH and the PSC assets, with any profits from BOW EIH being distributed 80% to Bow and 20% to the Company, pursuant to a Petrolia Carry Agreement (the “Carry Agreement”); and

(f)

a 3% royalty, after recovery of (i) the funds expended by Bukit Energy Bohorok Pte Ltd, which is wholly-owned by BOW EIH in the Bohorok, Indonesia PSC (the “Bohorok PSC”) since July 1, 2018, plus (ii) \$3,546,450 (i.e., ½ of Bow’s share of the prior sunk cost of the Bohorok PSC), which royalty is evidenced by an Assignment of Petrolia Royalty (the “Royalty Assignment”).

The Exchange Agreement closed on August 31, 2018 and has an effective date of July 1, 2018. The Exchange Agreement contains customary and standard representations and warranties of the parties, indemnification obligations (which survive for six months following the closing) and closing conditions. The Company is in the process of cancelling the Blue Sky Shares and returning such shares to the status of authorized but unissued shares of common stock.

**NOTE 10. BUSINESS SEGMENTS**

We are a diversified oil and gas company with operations in two segments:

*Oil and Gas Exploration and Production* – which includes exploration, development, and production of current and potential oil and gas properties.

*Oil field services* – which includes selling oil field related equipment and providing various oil field related services to the oil and gas industry.

	Three months ended March 31, 2018	Three months ended March 31, 2017
Revenues		
Oil & Gas	\$29,980	\$33,560
Oil field services	—	—
	—	—
Net Income (Loss)		
Oil & Gas	(27,272,990)	(459,222 )
Oil field services	(4,048 )	(4,048 )
Assets		
Oil & Gas	23,341,260	13,057,078
Oil field services	236,014	181,593
Accounts Receivable		
Oil & Gas	18,254	48,201
Oil field services	\$—	\$—

**NOTE 11. SUPPLEMENTAL CASH**

Interest Paid	\$376	\$8,318
NON-CASH INVESTING AND FINANCIAL DISCLOSURES		
Common shares issued for purchase Bow Energy Ltd., a related party	\$34,607,088	\$—

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Settlement of accrued salaries with common shares	61,621	—
Settlement of account payable for common shares, related party	102,590	—
Initial recognition of asset retirement obligation	—	101,405
Settlement of accounts receivable and other assets for oil and gas properties	—	465,788
Note payable for vehicle purchase	—	35,677
Series A preferred dividend	44,006	—

## NOTE 12. SUBSEQUENT EVENTS

- On April 12, 2018, the Board of Directors approved (a) the entry by the Company into a \$500,000 Convertible Promissory Note with Blue Sky International Holdings Inc. This note was subsequently cancelled on April 27<sup>th</sup>, 2018 and was no longer valid after this fact. Had this note been activated, this would have been a related party transaction, as Ilyas Chaudhary is the father of Zel C. Khan, the Company's Chief Executive Officer. Mr. Chaudhary owns and controls Blue Sky International Holdings Inc. The note, effective April 1, 2018, is due on
- (i) April 1, 2019, accrues interest at the rate of 11% per annum until paid in full, and is convertible into shares of common stock of the Company at the rate of \$0.12 per share; and (b) the entry into an Amended Revolving Line of Credit Agreement with Jovian Petroleum Corporation, a related party, which establishes a revolving line of credit in the amount of \$500,000 for a period of six months (through August 9, 2018) with amounts borrowed thereunder due at the expiration of the line of credit and accruing interest at the rate of 3.5% per annum unless there is a default thereunder at which time amounts outstanding accrue interest at the rate of 7.5% per annum until paid in full, with such interest payable every 90 days.
- On April 18, 2018, a Separation and Release Agreement between the former President of the Company, James Burns and the Company became effective whereby Mr. Burns ceased to be an employee of the Company. Pursuant to the terms of the agreement, the Company will pay Mr. Burns \$33,000, grant him warrants to
- (ii) purchase 3,000,000 shares of common stock at an exercise price of \$0.10 per share and also issue 2,000,000 shares of restricted common stock of the Company, which it satisfied on May 14, 2018. The warrants were granted at fair value using a Black Scholes model for \$266,971 and the restricted shares were valued at the closing price of Petrolia's stock, for \$180,000.
- On April 20, 2018, the Company entered into an agreement to offer the position of Chairman of the Board to James Burns. Mr. Burns accepted and became Chairman of the Board effective May 1, 2018. Pursuant to the terms of the offer, Mr. Burns will be paid an annual salary of \$65,000 and up to \$25,000 in health benefits for Mr. Burns and his family. The Company will issue 500,000 shares of restricted common stock, which it satisfied
- (iii) on May 14, 2018. An additional 500,000 shares of restricted common stock will be issued upon a successful listing of the Company on the NASDAQ or NYSE exchanges. Mr. Burns will also be granted fully vested warrants to purchase 2,000,000 shares of common stock exercisable at \$0.10 per share expiring in 36 months. The warrants were granted at fair value using a Black Scholes model for \$177,982 and the restricted shares were valued at the closing price of Petrolia on the date of the agreement for \$45,000.
- (iv) On April 26, 2018, the Company issued 200,000 shares of common stock as a bonus to a vendor valued at \$14,000 based on the closing price of \$0.07 per share.
  - (v) On April 26, 2018, a warrant holder exercised his 500,000 warrants at a strike price of \$0.10 for gross proceeds of \$50,000 and was issued 500,000 shares of common stock.
  - (vi) On May 9, 2018, Bow, the Company's wholly owned subsidiary, entered into an Amended and Restated Loan Agreement with a third party (the "Loan Agreement" and the "Lender"). The Loan Agreement increased by \$800,000 the amount of a previous loan agreement entered into between Bow and the Lender, to \$1,530,000. The amount owed under the Loan Agreement (\$1,530,000) accrues interest at the rate of 12% per annum (19% upon the occurrence of an event of default) and is due and payable on May 11, 2021, provided that the amount

owed can be prepaid prior to maturity, beginning 60 days after the date of the Loan Agreement, provided that the Company give the Lender 10 days' notice of our intent to repay and pay the Lender the interest which would have been due through the maturity date at the time of repayment. The Company is also required to make a payment of principal and interest in the amount of \$50,818 per month towards the amount owed beginning on July 15, 2018. The Loan Agreement contains standard and customary events of default, including cross defaults under other indebtedness obligations of us and Bow, and the occurrence of any event which would have a material adverse effect on us or Bow.

The additional \$800,000 borrowed in connection with the entry into the Loan Agreement can only be used by the Company for a future acquisition of oil and gas properties, which the Company is currently in discussions regarding, and will be secured by such assets, when/if the transaction closes. In the event the acquisition (or another mutually agreed upon acquisition), for any reason does not close, the \$800,000 in additional funds are anticipated to be immediately repaid to the Lender.

In order to induce the Lender to enter into the Loan Agreement, the Company agreed to issue the Lender 500,000 shares of restricted common stock (the "Loan Shares"), which were issued on May 18, 2018, and warrants to purchase 2,320,000 shares of common stock (the "Loan Warrants"), of which warrants to purchase (a) 320,000 shares of common stock have an exercise price of \$0.10 per share in Canadian dollars, and expire on the date the Loan Agreement has been repaid; (b) 500,000 shares of common stock have an exercise price of \$0.12 per share in U.S. dollars, and expires on May 15, 2021; and (c) 1,500,000 shares of common stock have an exercise price of \$0.10 per share in U.S. dollars and expire on May 15, 2020.

(vii) On May 11, 2018 & May 15, 2018, The Company closed a private placement of two of units for \$100,000, with each unit having a price of \$50,000, is comprised of 416,667 shares of common stock and one warrant to purchase an additional 416,667 shares of common stock at a price of \$0.20 per share at any time prior to October 1, 2020.

(viii) On May 22, 2018, 500,000 shares of common stock were issued to (CFO) Tariq Chaudhary as per his employment offer letter.

(ix) Effective on June 29, 2018, the Company acquired a 25% working interest in approximately 41,526 acres located in the Luseland, Hearts Hill, and Cuthbert fields, located in Southwest Saskatchewan and Eastern Alberta, Canada (collectively, the “Canadian Properties” and the “Working Interest”). The Canadian Properties currently encompass 64 sections, with 240 oil and 12 natural gas wells currently producing on the properties. Additionally, there are several idle wells with potential for reactivation and 34 sections of undeveloped land (approximately 21,760 acres).

The Canadian Properties and the Working Interest were acquired from Blue Sky Resources Ltd. (“Blue Sky”), whose President is Ilyas Chaudhary, the father of Zel C. Khan, the Company’s Chief Executive Officer. Mr. Chaudhary owns and controls BSIH Ltd. (“BSIH”). BSIH was the largest shareholder of the Company prior to the cancellation of the shares pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd dated August 31, 2018. Blue Sky had previously acquired an 80% working interest in the Canadian Properties from Georox Resources Inc., who had acquired the Canadian Properties from Cona Resources Ltd. and Cona Resources Partnership prior to the acquisition by the Company.

The effective date of the acquisition was June 1, 2018. The acquisition of the Canadian Properties was evidenced and documented by a Memorandum of Understanding between the Company and Blue Sky dated June 29, 2018 and a General Conveyance between the parties dated as of the same date, pursuant to which the Company agreed to acquire the Working Interest in consideration for \$1,428,581 in Canadian dollars (“CAD”) (approximately \$1,089,150 in U.S. dollars) of which CAD \$1,022,400 (approximately \$779,478 in U.S. dollars) was paid in cash (the “Cash Payment”) and CAD \$406,181 (approximately \$314,912 in U.S. dollars) was evidenced by a promissory note (the “Acquisition Note”).

The Cash Payment was made with funds borrowed by the Company pursuant to the terms of that certain \$1,530,000 May 9, 2018, Amended and Restated Loan Agreement entered into with Bow and a third party (the “Loan Agreement” and the “Lender”). The amount owed under the Loan Agreement accrues interest at the rate of 12% per annum (19% upon the occurrence of an event of default) and is due and payable on May 11, 2021. The Working Interest will be held in the name of the Company’s newly formed wholly-owned Alberta, Canada, subsidiary, Petrolia Canada Corporation. The Acquisition Note, which was dated June 8, 2018, bears interest at the rate of 9% per annum, beginning on August 1, 2018 and is due and payable on November 30, 2018, provided that we have the right to extend the maturity date for a period six months with 10 days’ notice to Blue Sky, in the event we pay 25% of the principal amount of the Acquisition Note at the time of extension.

The acquisition has not formally closed as the assets can only be transferred after the payment/settlement of the Acquisition Note.

(x) On August 17, 2018, the Company sold an aggregate of \$90,000 in Convertible Promissory Notes (the “Director Convertible Notes”), to the Company’s directors, Ivar Siem (\$20,000) through an entity that he is affiliated with; Leo Womack (\$60,000); and Joel Oppenheim (\$10,000). The Director Convertible Notes accrue interest at the rate of 12% per annum until paid in full and are due and payable on October 17, 2018. The amount owed may be prepaid at any time without penalty. The outstanding principal and interest owed under the Director Convertible Notes are convertible into common stock of the Company, from time to time, at the option of the holders of the notes, at a conversion price of \$0.10 per share. As additional consideration for entering into the notes, the Company agreed to grant one-year warrants to purchase one share of the Company’s common stock at an exercise price of \$0.10 per share for each dollar loaned pursuant to the Director Convertible Notes (the “Bridge Note Warrants”). As such, the Company granted (a) 20,000 Bridge Note Warrants to an entity affiliated with Ivar Siem; (b) 60,000 Bridge Note Warrants to Leo Womack; and (c) 10,000 Bridge Note Warrants to Joel Oppenheim. The Director Convertible Notes contain standard and customary events of default. It is contemplated that up to an

additional \$160,000 in Director Convertible Notes will be sold to affiliates of the Company in the next several months.

Effective on August 31, 2018, the Company entered into and closed the transactions contemplated by a Share Exchange Agreement with Blue Sky Resources Ltd. (“Blue Sky” and the “Exchange Agreement”). The President, Chief Executive Officer and 100% owner of Blue Sky is Ilyas Chaudhary, the father of Zel C. Khan, the (xi) Company’s Chief Executive Officer. Chaudhary indirectly owns and controls BSIH Ltd. (“BSIH”), which is a significant shareholder of the Company. Additionally, prior to the acquisition of Bow Energy Ltd. (“Bow”) (which we acquired pursuant to an Arrangement Agreement dated November 30, 2017, which acquisition closed on February 27, 2018), BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary, controlled Bow.

Pursuant to the Exchange Agreement, we exchanged 100% of the ownership of Bow, in consideration for:

(a)

70,807,417 shares of the Company’s common stock owned and controlled by Mr. Chaudhary and BSIH (the “Blue Sky Shares”);

(b)

\$100,000 in cash (less certain advances paid by Blue Sky or Bow to the Company since April 1, 2018);

(c)

the assumption of certain payables owed by Bow totaling \$1,696,332 (which includes \$730,000 owed under the terms of a Loan Agreement, as amended, originally entered into by Bow, but not the subsequent \$800,000 borrowed by Bow pursuant to the amendment to the Loan Agreement dated May 9, 2018 (which obligation is documented by a Debt Repayment Agreement));

(d)

20% of Bow Energy International Holdings, Inc, which is wholly-owned by Bow (“Bow EIH”)(which entity’s subsidiaries own certain Production Sharing Contracts (the “PSC”) and certain other participating assets), pursuant to an Assignment Agreement;

(e)

certain carry rights described in greater detail in the Exchange Agreement, providing for Blue Sky to carry the Company for up to the next \$10 million of aggregate costs in BOW EIH and the PSC assets, with any profits from BOW EIH being distributed 80% to Bow and 20% to the Company, pursuant to a Petrolia Carry Agreement (the “Carry Agreement”); and

(f)

a 3% royalty, after recovery of (i) the funds expended by Bukit Energy Bohorok Pte Ltd, which is wholly-owned by BOW EIH in the Bohorok, Indonesia PSC (the “Bohorok PSC”) since July 1, 2018, plus (ii) \$3,546,450 (i.e., ½ of Bow’s share of the prior sunk cost of the Bohorok PSC), which royalty is evidenced by an Assignment of Petrolia Royalty (the “Royalty Assignment”).

The Exchange Agreement closed on August 31, 2018 and has an effective date of July 1, 2018. The Exchange Agreement contains customary and standard representations and warranties of the parties, indemnification

obligations (which survive for six months following the closing) and closing conditions. The Company is in the process of cancelling the Blue Sky Shares and returning such shares to the status of authorized but unissued shares of common stock.



## FORWARD LOOKING STATEMENTS

This report contains statements which, to the extent that they do not recite historical fact, constitute forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts and may include the words "may," "will," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," words or expressions of similar meaning. We have based these forward-looking statements on our current expectations about future events. The forward-looking statements include statements that reflect management's beliefs, plans, objectives, goals, expectations, anticipations and intentions with respect to our financial condition, results of operations, future performance and business, including statements relating to our business strategy and our current and future development plans.

The potential risks and uncertainties that could cause our actual financial condition, results of operations and future performance to differ materially from those expressed or implied in this report include:

The sale prices of crude oil;

The amount of production from oil wells in which we have an interest;

Lease operating expenses;

International conflict or acts of terrorism;

General economic conditions; and

Other factors disclosed in this report.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Many factors discussed in this report, some of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from the forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this report as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should read the matters described in "Risk Factors" and the other cautionary statements made in, and incorporated by reference in, this report as being applicable to all related forward-looking statements wherever they appear in this report. We cannot assure you that the forward-looking statements in this report will prove to be accurate and therefore

prospective investors are encouraged not to place undue reliance on forward-looking statements. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future.

Please see the “Glossary of Oil and Gas Terms” on page 9 of our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on April 17, 2018 (the “2017 Annual Report”) for a list of abbreviations and definitions used throughout this report.

This information should be read in conjunction with the interim unaudited financial statements and the notes thereto included in this Quarterly Report on Form 10-Q/A, and the unaudited financial statements and notes thereto and Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our 2017 Annual Report.

Certain capitalized terms used below and otherwise defined below, have the meanings given to such terms in the footnotes to our consolidated financial statements included above under “Part I - Financial Information” - “Item 1. Financial Statements”.

Unless the context requires otherwise, references to the “Company,” “we,” “us,” “our,” “Petrolia” and “Petrolia Energy Corp.” refer specifically to Petrolia Energy Corp. and its wholly-owned subsidiaries.

In addition, unless the context otherwise requires and for the purposes of this report only:

“Bbl” refers to one stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude oil or other liquid hydrocarbons;

“Boe” barrels of oil equivalent, determined using the ratio of one Bbl of crude oil, condensate or natural gas liquids, to six Mcf of natural gas;

“Mcf” refers to a thousand cubic feet of natural gas;

“SEC” or the “Commission” refers to the United States Securities and Exchange Commission; and

“Securities Act” refers to the Securities Act of 1933, as amended.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Background**

We were incorporated in Colorado on January 16, 2002.

In February 2012, we decided it would be in the best interests of our shareholders to no longer pursue our original business plan and, in April 2012 we became active in the exploration and development of oil and gas properties.

Effective September 2, 2016, we formally changed our name to Petrolia Energy Corporation, pursuant to the filing of a Statement of Conversion with the Secretary of State of Colorado and a Certificate of Conversion with the Secretary of State of Texas, authorized by the Plan of Conversion which was approved by our stockholders at our April 14, 2016, annual meeting of stockholders, each of which are described in greater detail in the Definitive Proxy Statement on Schedule 14A, which was filed with the Securities and Exchange Commission on March 23, 2016. In addition to the Certificate of Conversion filing, we filed a Certificate of Correction filing with the Secretary of State of Texas (correcting certain errors in our originally filed Certificate of Formation) on August 24, 2016.

As previously reported, although the stockholders approved the Plan of Conversion at the annual meeting, pursuant to which our corporate jurisdiction was to be changed from the State of Colorado to the State of Texas by means of a

process called a “Conversion” and our name was to be changed to “Petrolia Energy Corporation”, those filings were not immediately made and the Conversion did not become legally effective until September 2, 2016. Specifically, on June 15, 2016, the Company filed a Certificate of Conversion with the Texas Secretary of State, affecting the Conversion and the name change, and including a Certificate of Formation as a converted Texas corporation; however, the Statement of Conversion was not filed with the State of Colorado until a later date. As a result, and because FINRA and the Depository Trust Company (DTC) had advised us that they would not recognize the Conversion or name change, or update such related information in the marketplace until we became current in our periodic filings with the Securities and Exchange Commission and they had a chance to review and approve such transactions, we took the position that the Conversion and name change were not legally effective until September 2, 2016.

As a result of the filings described above, and FINRA and the Depository Trust Company (DTC) formally recognizing and reflecting the events described above in the marketplace, the Company has formally converted from a Colorado corporation to a Texas corporation, and has formally changed its name to “Petrolia Energy Corporation”.

Two significant acquisitions were made in 2015 and additional working interests in the same properties were acquired in 2016 and 2017, as described in greater detail in the “Plan of Operation” section below. Additionally, in February 2018, we acquired Bow Energy Ltd and its assets, as discussed below.

## **Plan of Operation**

Since 2015, we have established a clearly defined strategy to acquire, enhance and redevelop high-quality, resource in place assets. The Company has been focusing on acquisitions in the Southwest United States and Indonesia (as described below) while actively pursuing our strategy to offer low-cost operational solutions in established Oil and Gas regions. We believe our mix of assets-oil-in-place conventional plays, low-risk resource plays and the redevelopment of our late-stage plays is a solid foundation for continued growth and future revenue growth.

Our strategy is to acquire low risk, conventionally producing oil fields. This strategy allows us to incorporate new technology to minimize risk and maximize the recoverability of existing reservoirs. This approach allows us to minimize the environmental impact caused by exploratory development.

Our activities will primarily be dependent upon available financing.

Oil and gas leases are considered real property. Title to properties which we may acquire will be subject to landowner's royalties, overriding royalties, carried working and other similar interests and contractual arrangements customary in the oil and gas industry, to liens for current taxes not yet due, liens for amounts owing to persons operating wells, and other encumbrances. As is customary in the industry, in the case of undeveloped properties little investigation of record title will be made at the time of acquisition (other than a preliminary review of local records). However, drilling title opinions may be obtained before commencement of drilling operations.

### ***Minerva-Rockdale Field***

The Minerva-Rockdale Field, which is located approximately 30 miles Northeast of Austin, Texas, was first discovered in 1921 and is approximately 50 square miles in size. The main producing formation for this field is the Upper Cretaceous Navarro Group of sands and shales. The Navarro is typically subdivided into several producing zones from the uppermost "A" and "B" sands to the lower "C" and "D" sands. The "B" sand is the primary producing zone. These sands are commonly fine grained and poorly sorted and were deposited close to a shoreline during a cycle of marine regression.

In April 2013, the Company entered into a lease pertaining to a 423 acre tract in Milam County, Texas, which is adjacent to the Company's original 200 acre lease. The Company issued 500,000 shares of its common stock as consideration for a 100% working interest (75% net revenue interest) in such lease.

In August 2013, we became an oil and gas operator and took over the operation of 100% of our wells. As such, we terminated our relationship with RTO Operating, LLC for the day-to-day operations and monitoring of our wells. During 2014, the Company continued to operate its own lease. During the fourth quarter of 2014, the Company hired Jovian Petroleum Corporation (Jovian) to survey the operations and well performance at the Noack field. Their report identified paraffin buildup problems in the well bores and gathering lines as the main production issue for the Company to overcome. In December 2014, the Company signed an operating agreement with Jovian to assume full operational responsibility for the Noack field under a fixed fee agreement of \$10,000 per month for full operating field services. On March 1, 2015, the Company hired Zel C. Khan, our current CEO and director, who is the largest stockholder of Jovian, as well as several former employees of Jovian Petroleum. This allowed for the fixed fee agreement with Jovian. The CEO of Jovian is Quinten Beasley, our director, and the largest shareholder of Jovian is Zel C. Khan, our CEO and director.

During the period from our inception to December 31, 2011, we did not drill any oil or gas wells. During the year-ended December 31, 2012 we drilled and completed six (6) oil wells and during 2013 the Company drilled and completed three (3) wells of which one (1) was converted to an injection well. During 2014 the Company drilled seven (7) new wells. In 2015, six (6) of the wells were completed, five (5) wells produced, one (1) did not produce and one (1) well was not completed. During 2016 and through the first quarter ended March 31, 2018, the Company had two (2) wells producing, six (6) wells to workover, with one (1) injection well, one (1) that did not produce, and one (1) well not completed.

***Slick Unit Dutcher Sands (“SUDS”) Field***

The SUDS oilfield consists of 2,600 acres located in Creek County, Oklahoma and carries a 76.5% net revenue interest (NRI). The first oil producer was completed in 1918 by Standard Oil of Ohio (“Sohio”), which at that time was owned by John D. Rockefeller. By 1959, approximately 14,000,000 barrels of oil had been recovered at an average well depth of 3,100 feet and over 100 wells in production. Through a series of events, the infrastructure had deteriorated and the field suffered a lot of neglect. Since 2011, Jovian has invested an estimated \$1.6 million into the restoration of the field; rebuilding the infrastructure and putting wells back in production. To date, 22 wells have been worked over and 9 are fully operational with considerable reserves remaining.

The Company has approved the SUDS well #1 and has approved and filed for two new infill wells to be drilled. The Company expects to drill the first well in 3<sup>rd</sup> quarter of 2018, funding permitting.

**SUDS 10% Acquisition**

The Company acquired a 10% working interest in the SUDS field located in Creek County, Oklahoma on September 23, 2015, in exchange for 10,586,805 shares of restricted common stock. Based on the then current market value of our common stock, \$0.068 per share, the price paid was \$719,903 or \$4.77 dollars per barrel of oil (Bbl). Through this transaction, the Company increased its reserve base by approximately 151,000 Bbls of (1P) proven reserves. Concurrently with the purchase, Jovian agreed to assign to the Company the right to be the operator of record of the SUDS field, governed by an American Association of Professional Landmen (AAPL) standard Joint Operating Agreement (JOA).

**SUDS 90% Acquisition**

On the effective date of September 28 2016, the Company acquired a 90% net working interest in the SUDS field as a result of two separate agreements, Purchase and Sale Agreement and the Share Exchange Agreement, both between the Company and Jovian.

The Company issued two notes for a combined value of \$4,000,000 in exchange for a cumulative 50% working interest in SUDS. A Promissory Note to Jovian for \$1,000,000 was executed bearing interest at 5% and due on December 31, 2016 related to the acquisition of a 50% working interest in the SUDS field. The Promissory Note was secured by a 12.5% undivided working interest in the SUDS field. In addition, a Production Payment Note was

executed for the same 50% working interest in the SUDS field. This note was for \$3,000,000, paid out of twenty percent (20%) of the 50% undivided interest of net revenues received by the Purchaser that is attributable to the SUDS field assets. The Production Payment Note was secured by a 12.5% undivided working interest in the SUDS field.

The Company issued 24,308,985 shares of its restricted common stock to Jovian to acquire an additional 40% working interest ownership of SUDS. The purchase price of the shares equates to a \$4,373,186 value, based on the \$0.1799/share market price of our common stock on September 28, 2016 (the effective date of the transaction).

Jovian Petroleum Corporation, a related party, converted its outstanding \$4,000,000 of debt in two tranches, a \$2,000,000 first tranche on May 30, 2017 and a \$2,000,000 second tranche on July 19, 2017. Although the two transactions occurred in different reporting periods, the two transactions were contemplated together, and they were accounted for as one extinguishment that was accomplished in two tranches, the first in May 2017 and the second in July 2017.

Tranche 1 - On May 30, 2017, Jovian Petroleum Corporation converted \$2 million of its \$4 million debt into 10 million shares of the Company's common stock. The \$2 million debt included a \$1 million Promissory Note and \$1 million of the \$3 million Production Payment Note as well as interest payable of \$33,151.



Tranche 2 - On July 19, 2017, Jovian Petroleum Corporation converted \$2 million of its remaining debt (outstanding under a Production Payment Note) into 12,749,286 shares of the Company's common stock and 21,510 shares of the Company's Preferred Stock.

The consideration for the debt extinguished consisted of the following:

10 million shares of common stock which were valued using the market price on the date of issuance of \$0.14 per share (\$1,400,000).

Warrants to purchase 6 million shares of common stock with an exercise price of \$0.20 per share based on a \$0.12 valuation, volatility of 293%, a discount rate of 1.09% and warrants to purchase 4 million shares of common stock with an exercise price of \$0.35 per share based on a \$0.12 valuation, volatility of 293%, and a discount rate of 1.09%. All warrants expire in 3 years. The 6 million warrants were valued at \$709,776 while the 4 million warrants were valued at \$471,104, totaling \$1,180,880.

12,749,286 shares of common stock which were valued using the market price on the date of issuance of \$0.104 per share (\$1,325,926).

The Preferred Stock was valued at \$10.00 per share, the cash price paid by third party investors for the same stock with an aggregate value of \$215,100.

The combination of the two transactions resulted in an \$88,755 loss which was recognized in the second quarter of 2017. The extinguishment of tranche 2 was recognized in the third quarter, with no impact on the consolidated statement of operations.

### ***Twin Lakes San Andres Unit ("TLSAU") Field***

TLSAU is located 45 miles from Roswell, Chavez County, New Mexico and consists of 4,864 acres with 130 wells. The last independent reserve report prepared by MKM Engineering on December 31, 2017, reflects approximately 1.6 million barrels of proven oil reserves remaining for the 100% working interest. During 2017, the Company took control of thirty-eight (38) wells of which twenty-one (21) were re-worked of this eight (8) wells remained producing, five (5) wells were dedicated for injection purpose and the remaining await additional workover and a secondary. During 2017 and through the first quarter ended March 31, 2018, the field had ninety (90) total wells, six (6) were producing, and twenty-one (21) are producible after certain workovers, and five (5) have been designated as injection wells and are awaiting permits. As of December 31, 2017, and continuing through the filing date of this report, Petrolia had filed its Operator bond and assigned an Operator designation to become the operator of the field. As of the date of this report, Petrolia owns a 100% working interest in the field.

### **TLSAU 15% Acquisition**

On November 4, 2015, the Company acquired a 15% net working interest in the TLSAU field located in Chavez County, New Mexico (the “Net Working Interest”) and all operating equipment on the field. Through this transaction, the Company increased its reserve base by approximately 384,800 Bbls of (1P) proven reserves. The Company was also assigned all rights to be the operator of the TLSAU unit under a standard operating agreement.

The total purchase price for the acquisition of the Net Working Interest and equipment rights was \$196,875 or \$0.52 per barrel of oil (Bbl) and was paid to Blue Sky NM, Inc. (“BSNM”). The Company paid \$50,000 in cash and gave a promissory note in the amount of \$146,875. The \$50,000 was paid by the CEO of the Company for the benefit of the Company and recorded as a shareholder advance. Subsequently, the \$50,000 advance was converted into 800,000 shares of common stock at \$0.06 per share and warrants to purchase 800,000 shares of common stock that expire in three (3) years. In addition, a \$1.3 million face value note payable to BSNM was purchased for \$316,800 [the “BSNM Note”] (6,000,000 shares of common stock at \$0.0528 per share). With the inclusion of the note receivable, the price per barrel would be \$1.33 dollars per barrel oil (Bbl).

### TLSAU 25% Acquisition

On September 1, 2016, the Company acquired an additional 25% working interest ownership in the TLSAU field through the issuance of 3,500,000 shares of its restricted common stock to an unrelated party. The purchase price of the shares equates to a \$350,000 value, based on the \$0.10 per share market price of Petrolia's shares on September 1, 2016. After the purchase, the Company owns a total working interest ownership of 40%. The final purchase price allocation of the transaction is as follows: oil and gas properties acquired \$392,252, and asset retirement obligations assumed of \$42,252.

### TLSAU 60% Acquisition

Effective February 12, 2017, the Company acquired an additional 60% working interest ownership in the TLSAU field (the "Net Working Interest") resulting from the execution of a Settlement Agreement on February 12, 2017. The agreement assigned Dead Aim Investments' ("Dead Aim") 60% ownership interests to the Company. As a result of this transaction, Petrolia now owns a 100% working interest in TLSAU. Consideration of \$465,788 was given in exchange for Dead Aim's working interest. The consideration includes the forgiveness of the BSNM Note of \$316,800 (with a \$1.3 million face value) which we acquired in November 2015 and the write-off of \$148,988 of Dead Aim's outstanding accounts receivable to Petrolia. Dead Aim assumed liability (prior to the acquisition) for the OPBE note that the Company purchased.

### *Askarii Resources, LLC*

Effective February 1, 2016, the Company acquired 100% of the issued and outstanding interests in Askarii Resources LLC ("Askarii"), a private Texas based oil & gas service company. The Company acquired Askarii by issuing one (1) million restricted shares of common stock. Based on the then market value of the Company's common stock at \$0.05 per share, the aggregate value of the transaction was \$50,000.

Askarii, while dormant for the last few years, has a significant history with major oil companies providing services both onshore and offshore- Gulf of Mexico. Using Askarii, the Company plans to engage in the oil field service business as well as the leasing of field related heavy equipment. It is also contemplated that Askarii will research various enhanced oil recovery (EOR) technologies and methods which it can use for the benefit of the Company's oil fields.

***Bow Energy Ltd., a related party***

On February 27, 2018, the Acquisition closed, and Petrolia Energy Corporation acquired all of the issued and outstanding shares in Bow Energy Ltd. Bow Energy Ltd. has contracts covering a total land position in Indonesia of 948,029 net acres as described in greater detail below. The President, Chief Executive Officer and 100% owner of Blue Sky International Holdings, Inc. and also Blue Sky Resources Ltd, is Ilyas Chaudhary, the father of Zel C. Khan, the Company's Chief Executive Officer. Mr. Chaudhary owns and controls BSIH Ltd. ("BSIH"), which was the largest shareholder of the Company prior to the agreed cancellation of the shares held by BSIH in September 2018 pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd. dated August 31, 2018. Additionally, prior to the acquisition of Bow as described above, BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary controlled Bow.

**South Block A**

South Block A ("SBA") is located onshore North Sumatra, Indonesia. Bow is the operator of the 421 kilometer (km) block with a 44.48% Working Interest. The block has a proven petroleum system on trend with the Arun, Pase, Rantu and Kual Simpang gas fields. There are multiple prospects and leads with the potential for stacked pay. The block has existing infrastructure leading to a high demand oil and gas market. The SBA is part of the Dutch vintage oil field known as Paya Bili. The block was purchased on July 2, 2015.

The Company has advanced a total of \$1,971,491 to Bow's subsidiary Renco Elang Energy Pte. Ltd. ("REE") which holds Bow's interest in SBA. These advances are interest free loans. As part of the REE shareholder's agreement, all after-tax proceeds from the operations of SBA are first paid against the shareholder loans, prior to any distributions relative to each party's share interests.

REE's partner PT. Prosys Oil and Gas International ("POGI") defaulted on cash call requirements to fund SBA as part of its 14% working interest. The deadline to remedy the defaults was on October 23, 2016. POGI's interest in SBA was subsequently transferred in the following proportions: REE: 8.3% and KRX Energy (SBA) Pte Ltd.: 5.7%. The proportionate interests in SBA are now: 59.3% for REE and 40.7% for Lion Energy Limited, an Australian publicly-traded company.

The Indonesian regulatory authority, BPMA, granted an additional 4-year extension, effective as of January 19, 2017, to the exploration term for SBA. The extension was granted following the drilling of the Amanah Timur-1 discovery well. This completed the work commitments for the block. Following the extension, REE is reviewing results from the discovery to identify commercialization options and work towards filing a Plan of Development for approval by the regulatory authority. As per the government requirements, following relinquishment the remaining area of the SBA PSC is 421 km<sup>2</sup>. REE has selected the remaining area to ensure remaining acreage contains previously identified prospects and leads. The work program for the new extension is comprised of 50 km<sup>2</sup> of 3D seismic and planned drilling of 3 wells. After 2 years, the regulator will review progress on the block. During that time, the work commitment requires REE and its partner to either complete the work program or submit a Plan of Development. Failure to meet either target may result in expiration of the PSC, without financial penalty. The program is anticipated to take several years to complete and is subject to fulfillment of meeting various requirements as well as sufficient availability of funds.

## **Bukit**

In the Bukit region, there are four Production Sharing Contracts ("PSCs") and one non-conventional joint study agreement ("JSA"), all interests are located onshore in Sumatra, Indonesia. Bukit Energy Inc.'s shareholding interests (the "Bukit Assets") are in five Singapore holding companies (the "Holding Companies") that own the interests. The Holding Companies held by BEIH own the following interests in the conventional and non-conventional PSCs and the non-conventional JSA:

Bohorok PSC (conventional) – operated 50% participating interest, 465,266 net acres

Drill ready step-out location with resource potential

Palmerah Baru PSC (conventional) – operated 54% participating interest, 98,977 net acres

Several light oil play trends, shallow and deep analogues in surrounding PSC's with prolific production

Palmerah Deep PSC (non-conventional)- operated 69.36% participating interest, 170,398 net acres

Area underlies conventional PSC

Mahato PSC (conventional)- 20% participating interest, 167,115 net acres, non-operated

2 drill ready locations adjacent to producing fields

Bohorok Deep (non-conventional)- 20.25% participating interest in a JSA, non-operated with option to become operator

Area of JSA underlies the Bohorok PSC and adjacent to Pertamina's nonconventional PSC

## **Results of Operations**

### **Revenues & Costs – Three months ended March 31, 2018 compared to the three months ended March 31, 2017**

#### *Revenue*

We had total oil and gas sales of \$29,980 for the three months ended March 31, 2018, compared to \$33,560 for the three months ended March 31, 2017, a decrease of \$3,580, mainly due to a decline in production.

### *Operating Expenses*

Operating expenses increased by \$28,906,729 to \$29,330,592 for the quarter ended March 31, 2018 from \$423,863 for the quarter ended March 31, 2017. Period over period changes are due to non-cash accounting items in the period ended March 31, 2018, which included \$103,632 of transaction costs associated with the Bow acquisition and \$1,574,185 of stock-based compensation, a loss on debt settlement of \$203,349, and an impairment of \$27,129,963, relating to the impairment of the goodwill of Bow which was acquired by the Company pursuant to the Acquisition.

### *Interest Income (Expense)*

Interest expense decreased by \$43,203 due to a decrease in debt carried during the quarter. The Company acquired significant debt in the acquisition of Bow (see Note 6 to the Interim Condensed Consolidated Financial Statements for information regarding outstanding debt obligations) and as a result this expense is expected to normalize in the second quarter.

The Company incurred an exchange gain in the newly acquired Bow operations as it conducts its business in Canadian dollars. Exchange gain was incurred due to changes in trade payables, notes payable, and intercompany balances.

### *Net Loss*

Net loss for the quarter ended March 31, 2018 was \$29,277,038 compared to a net loss of \$463,270 for the quarter ended March 31, 2017 due to the factors described above.

### **Changes in Financial Condition**

The financial condition of the Company changed significantly from December 31, 2017 to March 31, 2018 as a result of the Company's acquisition of a related party Bow Energy Ltd., a related party.

Net assets of \$34,607,088 acquired as a result of the Bow acquisition can be summarized as follows:

Cash	\$3,784
Other current assets	4,763
Deposits	337,997
Furniture, equipment & software	12,059
Unproved properties and properties not subject to amortization	9,705,590
Goodwill	27,129,963
Accounts payable	(1,157,876 )
Note payable	(1,429,192 )

Additionally, we assumed several notes payable in connection with the acquisition. Collectively, the following are outstanding obligations:

	Nominal interest rate	Date of maturity	March 31, 2018		December 31, 2017	
			Face value	Carrying amount	Face value	Carrying amount
Truck loan (i)	5.49	% January 6, 2022	\$55,091	\$55,091	\$56,786	\$56,786
Promissory note (ii)	12	% June 30, 2018	37,613	42,127	—	—
Promissory note (iii)	12	% June 30, 2018	36,451	39,747	—	—
Bukit Energy Inc. (iv)	8.5	% December 15, 2017	500,000	538,677	—	—
Credit note (v)	9	% May 11, 2021	800,000	835,855	—	—
			\$1,429,155	\$1,511,497	\$56,786	\$56,786



The promissory notes are repayable in full on maturity. The difference between the face value and carrying amount is attributed to accrued interest.

- (i) On January 6, 2017, the Company purchased a truck and entered into an installment note with Don Ringer Toyota in the amount of \$35,677 for a term of five years at 5.49% annual percentage rate (APR).
- (ii) The note matures on February 28, 2018 and carries interest at 12% per annum. The note was extended to June 30, 2018.
- (iii) The note matures on February 28, 2018 and carries interest at 12% per annum. The note was extended to June 30, 2018.

- (iv) In conjunction with the closing of the purchase of the Bukit assets, Bow issued a note payable to Bukit Energy Inc. of \$500,000 with interest at the rate of 8.5% per annum, calculated monthly, not in advance, on the principal amount. The note matured on August 31, 2017. The note was extended to December 15, 2017. The note is in default and remained in default at the time of issuance of these financial statements.

- (v) Bow has a loan in default of \$800,000. The credit note is secured by a general security agreement over the assets of Bow. Interest accrues monthly and is recorded at 9% on the full amount of the original issued notes of USD \$1,100,000. The note is in default and remained in default at the time of issuance of these financial statements.
- (v) The debt holder also was issued warrants to purchase 320,000 shares of common stock exercisable at \$0.08 per share, expiring February 27, 2021. The warrants were valued at \$103,633 using the Black Scholes options pricing model with volatility of 283%, discount rate of 2.42% and call option value of \$0.32. The note was amended on May 9, 2018. Terms of which, are disclosed in Note 11 to the financial statements included herein.

### *Liquidity*

As of March 31, 2018, we had total current assets of \$105,900 and total assets in the amount of \$23,577,274. Our total current liabilities as of March 31, 2018, were \$3,989,823 and our total liabilities as of March 31, 2018 were \$4,491,839. We had negative working capital of \$3,883,923 as of March 31, 2018.

Our material asset balances are made up of oil and gas properties and related equipment. Our most significant liabilities are notes payable of \$1,488,988 (see the table above and Note 6 to the Interim Condensed Consolidated Financial Statements for information regarding outstanding debt obligations) and accounts payable of \$1,420,283, mainly consisting of accrued officer salaries.

Our sources and (uses) of funds for the three months ended March 31, 2018 were:

Cash provided (used) in operations	\$(309,075)
Subscriptions received in advance	22,500
Net cash acquired from purchase of Bow Energy Ltd., a related party	3,784
Proceeds from sale of preferred stock	20,000
Proceeds from sale of common stock	238,675

Net cash used by operating activities was \$309,075 and \$189,796 for the three months ended March 31, 2018 and 2017, respectively.

Net cash provided by financing activities was \$231,880 and \$125,535 for the three months ended March 31, 2018 and 2017, respectively. The increase from 2017 to 2018 was primarily due to proceeds obtained from the sale of common stock in the amount of \$238,675 for the three months ended March 31, 2018, offset by an increase in payments of notes payable to a related party of \$49,295 as compared to \$0 for the three months ended on March 31, 2017. For the three months ended March 31, 2018, the Company also received gross proceeds of \$20,000 from the sale of preferred stock.

The Company continues to operate at a negative cash flow of approximately \$90,000 per month and our auditors have raised a going concern in their latest audit report. Management is pursuing several initiatives to secure funding to increase production at both the SUDS and TLSAUs fields which together with anticipated increases in the price of crude oil may reduce the Company's monthly cash shortfall. The total amount required by the Company to accomplish this objective is approximately \$1,000,000, which funding may not be available on favorable terms, if at all.

The Company has suffered recurring losses from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. We plan to generate profits by working over existing wells and drilling productive oil or gas wells. However, we will need to raise additional funds to workover or drill new wells through the sale of our securities, through loans from third parties or from third parties willing to pay our share of drilling and completing the wells. We do not have any commitments or arrangements from any person to provide us with any additional capital. If additional financing is not available when needed, we may need to cease operations. There can be no assurance that we will be successful in raising the capital needed to drill oil or gas wells nor that any such additional financing will be available to us on acceptable terms or at all. Any wells which we may drill may not be productive of oil or gas. Management believes that actions presently being taken to obtain additional funding provide the opportunity for the Company to continue as a going concern. The accompanying financial statements have been prepared assuming the Company will continue as a going concern; no adjustments to the financial statements have been made to account for this uncertainty.

### **Trends Affecting Future Operations**

The factors that will most significantly affect our results of operations will be (i) the sale prices of crude oil and natural gas, (ii) the amount of production from oil or gas wells in which we have an interest, and (iii) lease operating expenses. Our revenues will also be significantly impacted by our ability to maintain or increase oil or gas production through exploration and development activities.

It is expected that our principal source of cash flow will be from the production and sale of crude oil and natural gas reserves which are depleting assets. Cash flow from the sale of oil and gas production depends upon the quantity of production and the price obtained for the production. An increase in prices will permit us to finance our operations to a greater extent with internally generated funds, may allow us to obtain equity financing more easily or on better terms, and lessens the difficulty of obtaining financing. However, price increases heighten the competition for oil and gas prospects, increase the costs of exploration and development, and, because of potential price declines, increase the risks associated with the purchase of producing properties during times that prices are at higher levels.

A decline in oil and gas prices (i) will reduce the cash flow internally generated by the Company which in turn will reduce the funds available for exploring for and replacing oil and gas reserves, (ii) will increase the difficulty of obtaining equity and debt financing and worsen the terms on which such financing may be obtained, (iii) will reduce

the number of oil and gas prospects which have reasonable economic terms, (iv) may cause us to permit leases to expire based upon the value of potential oil and gas reserves in relation to the costs of exploration, (v) may result in marginally productive oil and gas wells being abandoned as non-commercial, and (vi) may increase the difficulty of obtaining financing. However, price declines reduce the competition for oil and gas properties and correspondingly reduce the prices paid for leases and prospects. During the last 5 months oil prices have trended upward to approximately \$60.00 per barrel.

Other than the foregoing, we do not know of any trends, events or uncertainties that will have, or are reasonably expected to have, a material impact on our sales, revenues or expenses.

## **Critical Accounting Policies and New Accounting Pronouncements**

See Note 2 to the financial statements included in the 2017 Annual Report for a description of our critical accounting policies and the potential impact of the adoption of any new accounting pronouncements.

### **Item 4. Controls and Procedures.**

(a) We maintain a system of controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Principal Executive and Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of March 31, 2018, our Principal Executive Officer and Principal Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were not effective. Such disclosure controls and procedures were deemed ineffective due to a material weakness in connection with disclosure and related issues associated with related party transactions involving the Company and its officers and directors.

(b) *Changes in Internal Controls.* There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, provided that we did engage a new CFO during the three months ended March 31, 2018, Tariq Chaudhary.

## **Part II Other Information**

### **Item 6. Exhibits**

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q/A for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PETROLIA ENERGY  
CORPORATION**

September 26, 2018 By: /s/ Zel C. Khan  
Zel C. Khan  
Chief Executive Officer  
(Principal Executive Officer)

## EXHIBIT INDEX

Exhibit Number		Incorporated by Reference			
		Filed or Furnished Herewith	Form	Exhibit Number	Filing Date/ Period End Date File No.
2.1	<u>Arrangement Agreement, dated November 30, 2017 by and between the Company and Bow Energy Ltd.</u>		8-K	10.1	12/5/2017 000-52690
2.2*	<u>Bukit Energy Inc. Share Purchase Agreement Dated May 16, 2017</u>	#			
3.1*	<u>Certificate of Amendment to Certificate of Formation to Increase the Company's Authorized Shares of Common Stock to 400,000,000 Shares and to amend the par value of the Preferred Stock to \$0.001 per share, filed with the Secretary of State of Texas on November 9, 2017</u>	#			
10.1	<u>\$500,000 Convertible Promissory Note dated April 1, 2018 entered into with Blue Sky International Holdings Inc.</u>		10-K	10.28	12/31/2017 000-52690
10.2	<u>Amended Revolving Line of Credit Agreement with Jovian Petroleum Corporation dated February 9, 2018 and amended April 12, 2018</u>		10-K	10.29	12/31/2017 000-52690
10.3	<u>Separation and Release Agreement dated April 19, 2018, by and between James E. Burns and Petrolia Energy Corporation</u>		8-K	10.1	5/1/2018 000-52690
10.4	<u>Chairman Offer Letter dated April 20, 2018, by and between James E. Burns and Petrolia Energy Corporation</u>		8-K	10.2	5/1/2018 000-52690
10.5	<u>Warrant to Purchase Common Stock, evidencing warrants to purchase 5,000,000 shares of common stock granted to James E. Burns on April 19, 2018</u>		8-K	10.3	5/1/2018 000-52690
10.6*	<u>Tariq Chaudhary Offer Letter dated January 12, 2018</u>	#			
10.7*	<u>Bukit Energy Inc. \$500,000 Promissory Note dated August 31, 2017 and amendment</u>	#			
14.1	<u>Whistleblower Protection Policy</u>		8-K	14.1	5/24/2018 000-52690
31.1*	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	X			
31.2*	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	X			
32.1**		X			



	<u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act</u>				
32.2**	<u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act</u>	X			
99.1	<u>Charter of the Audit Committee</u>	8-K	99.1	5/24/2018	000-52690
99.2	<u>Charter of the Compensation Committee</u>	8-K	99.2	5/24/2018	000-52690
99.3	<u>Charter of the Nominating and Corporate Governance Committee</u>	8-K	99.3	5/24/2018	000-52690
101.INS*	XBRL Instance Document	X			
101.SCH*	XBRL Taxonomy Extension Schema Document	X			
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document	X			
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	X			
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document	X			
101.PRE*	XBRL Taxonomy Presentation Linkbase Document	X			

\* Filed herewith.

\*\* Furnished herewith.

# Filed with the original Form 10-Q.